RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 24, 1991 **LETTER 1074**

July 12 DJIA 2980.77; PTI 3320; A-D Ratio -11.46
July 19 DJIA 3016.32; PTI 3326; A-D Ratio -10.98
Dow Yield: 3.04%; Dow P/E: 21.3; DowPow: -1
Dow 200-day MA: 2760; Dow 30-day MA: 2966
Dow Book Value: 1276; PTI 89-day MA: 3271
Percentage of Undervalued Blue-chips: 14%
Summation Index: 1288

STOCKS/ECONOMY: When the market crashed back in October 1987 the general reaction was, "Run for the hills, it's 1929 all over again -- therefore, a depression must be on the way." But the economy never folded, and almost immediately the market headed up. It was a fooler.

Then during January through March 1991 the stock market surged higher (even while a recession was in force), and everyone said, "Ah, the Dow has rallied to new highs -- therefore the recession's surely over and better times must lie ahead."

Now I'm wondering if we're not about to witness a second fooler. You see, I'm beginning to doubt that the recession is really over. I think we're seeing "a breather" now, but basically I think the recession is still here -- and I believe it could last for quite a while longer. I feel that a good deal of "the recession is over" talk is just hype out of Washington -- that plus a large portion of wishful thinking.

The facts: money growth is still very low, banks are still reluctant to lend, the life insurance industry is now suspect, retail sales are still slow, construction is no great shakes, deficits are everywhere, pink slips and lay-offs are the order of the day, long rates remain high, and the good citizens of the US are in the unprecedented position of having to pay higher taxes in the face of a flat to recessionary economy.

So is the recession over? Well, Washington says it is, but I've learned this about information. (1) If the info comes from a university professor, I discount it by 50%, because most professors haven't had any experience with markets, and I distrust "experts" who've never had to deal with markets. (2) If the info comes from a politician, I discount it by 95%, because almost all politicians are self-serving, and that goes for most of the information they dish out.

THE MARKET: Important -- Don't confuse the economy with the market! When I write about the economy you should apply that to your business. When I write about the markets you should apply that to your investments. Currently, the stock market looks considerably better than the economy. The two will eventually dance to the same tune, but right now I feel they're out of step. Remember, the market has to do with investors' perceptions about the future. Perceptions can be correct, perceptions can be wrong, and perceptions can also turn "on a dime."

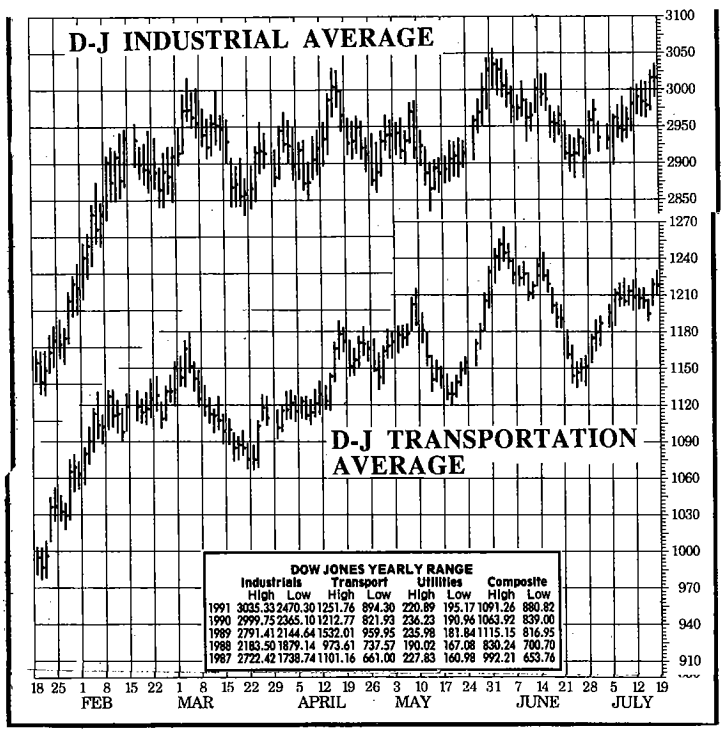
The stock market has been picking up strength of late, but if you look at the charts you'll see that the averages are still fluctuating within the confines of one of the most extended trading ranges in modern memory. Actually, the whole situation including the stock market and the economy is one of the most fascinating I've seen in my 45 years of watching markets. Fascinating? Yes. Frustrating? Yes. Confusing? Definitely. At any rate, here are some of the areas I am watching.

The market enjoyed a big advance during January through mid-March. Since then, the major averages have been moving basically sideways in an extended trading range. More often than not, a long sideways movement following an advance represents an area of distribution. I said more often than not -- but not always. The fact is that there is not a man alive who can say with certainty whether this trading range will ultimately be resolved to the upside or the downside. We just don't know. That's the nature of trading ranges. They keep you guessing. They're areas of indecision.

HOWEVER, on July 11 (see page 2 chart) **my Primary Trend Index (PTI)** broke out to a new record high. That's encouraging, but so far nothing else confirmed. None of the averages are at new highs, nor is the advance-decline ratio at a new high. Nevertheless, I view the PTI's action as positive. It's not the kind of thing I would expect to see in a bear market. Furthermore, as long as the PTI is in a rising trend, the pressure on this market will be to the upside.

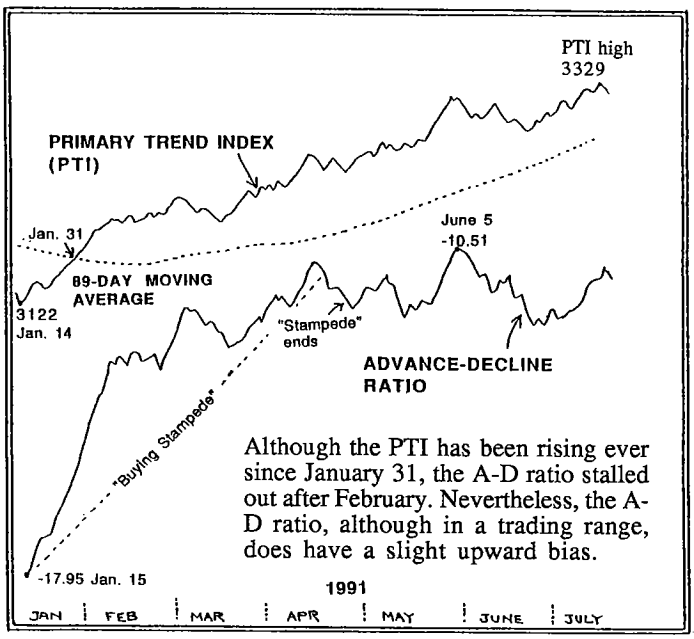
In the last Letter I wrote about the **Summation Index,** and I said that the longer (in duration) this Index continued down and the further down this Index dropped, the more oversold this market would become. Last week the Summation Index halted its decline and on July 9 it finally turned up. The trend continued higher (see page 2 chart), and on July 18 the Summation Index finally broke above its long declining trendline.

The main question now is whether any sustained buying power will come into this market. The stock market can "float up" on a relaxation of selling pressure, but it takes real buying, buying on increasing volume, to generate an impressive advance. So far that's what has been missing -- we just haven't seen the high-volume buying that will be needed if the Averages are to break out on the upside.



DOW JONES YEARLY RANGE

	Industrials		Transport		Utilities		Composite	
	High	Low	High	Low	High	Low	High	Low
1991	3035.32	2470.30	1251.76	894.30	220.89	195.17	1091.26	880.82
1990	2999.75	2365.10	1212.77	821.93	236.23	190.96	1063.92	839.00
1989	2791.41	2144.64	1532.01	959.95	235.98	181.84	1115.15	816.95
1988	2183.50	1879.14	973.61	737.57	190.02	167.08	830.24	700.70
1987	2722.42	1738.74	1101.16	661.00	227.83	160.98	992.21	653.76



Although the PTI has been rising ever since January 31, the A-D ratio stalled out after February. Nevertheless, the A-D ratio, although in a trading range, does have a slight upward bias.

The highs for the four-month trading range: **3035.33 for Industrials** and **1251.76 for the Transports.** If -- and I emphasize IF -- both Averages can break out above those critical levels, I would think we should see some fireworks. (Note: it is rumored that there are many "buy programs" that are set to be triggered if the major averages go to new highs.)

On July 15 the Hong Kong Hang Seng Index and British Financial Times stock averages both rallied to new record highs. Since primary movements tend to be global in scope, I take these two new highs as constructive for the markets.

Conclusion: the stock market has been moving towards the upper area of its trading range, but so far what is missing is a string of high-volume upside days. A market can "float up" on a drying up of selling pressure, but in order for an impressive advance to materialize, you must have buying power of rising volume. We're waiting.

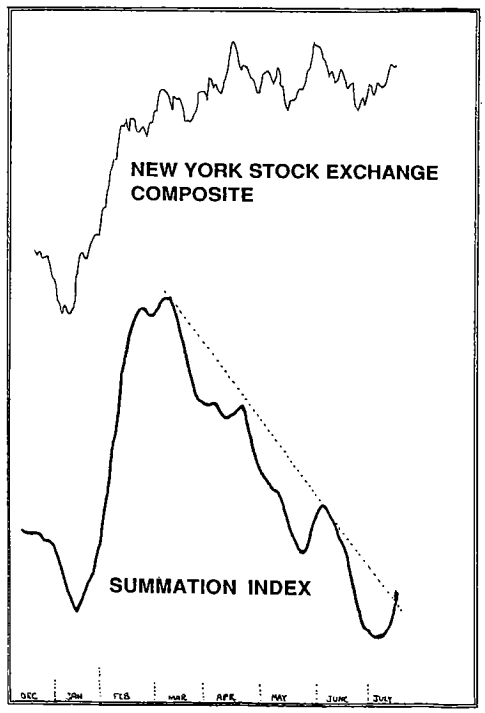
The major negative in this market continues to be overvaluation. With the Dow yielding a low 3.1%, any big advance from here would take Dow yields below 3%. There have been few times in history when the Dow yield has dropped below 3%. Furthermore, the dividend outlook doesn't look particularly promising (Rumor -- IBM may be a candidate for a dividend cut).

Economy: Just as the market is a mystery here, so is the economy (at least, to me it is). But not so for the nation's economists. The consensus among economists is that the recession is now history.

And I ask myself this question -- how is the US economy going to improve with little or no growth in the money supply and extremely low savings? No growth? As far as growth in the nation's money supply is concerned, Ed Hyman's latest chart shows that M-4 (known as "Liquidity") is up only 0.8% over its level of a year ago. This is a record low for M-4 growth. In previous instances, M-4 growth of around 8% or more was needed to pull the nation out of recession. So if we come out of this recession with M-4 growing at a 0.8% rate it will be something new for the history books.

As far as savings, the latest (May) figures show saving in the US down to an insignificant 3.6%. The inference is that the American consumer is spending almost all of his income in an attempt to keep up his standard of living.

Then there's another area that I've been pondering over. It appears that inflation is now low and under control. The latest figures show that Consumer Prices for June rose only 0.2%. That suggests that we're in a low or almost non-inflationary environment.



Thus, we have an economy with little or no growth in the money supply and we have an economy with very little inflation. Normally, this would be an acceptable situation, not an exciting one but at least an acceptable one. HOWEVER, today we also have an economy that's debt-ridden. High debt loads can be serviced in a high-growth, inflationary economy. But heavy debt in a low-growth, deflationary economy equals lots of bankruptcies, and that's what we're seeing now.

Speaking of debt, my computations show that during the latest 12 months this nation has added $383 billion to its federal debt. This amounts to additions to the national debt of $1.03 BILLION A DAY every day -- day in and day out. This can't go on indefinitely. If it continues, at some point our creditors will refuse to accept dollars. The US will then have to sell its debt denominated in foreign currencies or watch the dollar go down the drain.

FED: But don't despair, Wall Street has at least one less mystery to deal with. After putting it off to the last minute, President Bush finally announced that Fed Chairman Alan Greenspan had another four years on the job.

What does that mean for the economy and the markets? Well, there we go back to mystery. We know that Greenspan dislikes inflation (and his board tends to back him). So what it means is that the Fed will probably continue to opt for a tighter rather than a looser reign on both interest rates and the money supply. But, of course, there's an argument here too. The bond market likes the Greenspan Fed and its anti-inflation bent, and a happy bond market is always a plus for the stock market. But since the Fed has a hand in keeping the growth of the money supply low, the Fed has also been a factor in the recession (many insist that the Fed has been the main force behind the recession).

So Greenspan and the Fed, a plus or a minus in the broad scheme of things? My opinion -- in the very big picture, the Fed is not the deciding factor either way. The primary trend of the stock market and the economy can't be set by the Fed, the Treasury or any agency or organization. The Fed may fire up or it may hold back the primary trend, but the Fed cannot direct the course of the primary trend. The force and power of a bull or bear market are far beyond the manipulative powers of the Fed.

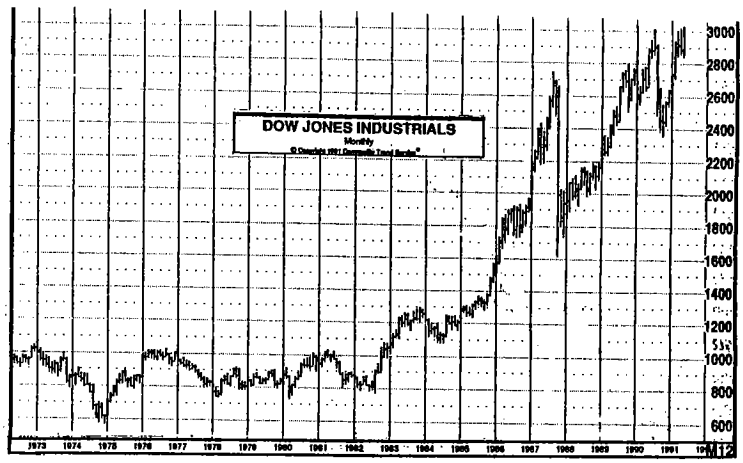
INVESTMENT POSITION: I've put a rather nervous bull in the box. He's chewing on some hay and looking rather wild-eyed. But he's still a bull, even if he does appear a bit crazy.

What to do in this strange market? I'll tell you what I've done. I've got most of my money in either short-term Treasury paper or in money market funds. I've added some more money to my store of no-load gold mutual funds. And most recently, I've assumed a medium-sized position in a few no-load (stock) growth funds.

I bought the stock funds on the basis of (1) the new high in my PTI, (2) the over-sold Summation Index, which has turned up and is about to reverse its four-month declining trendline, (3) the action of the advance-decline ratio, which has been pushing up rather persistently, and (4) the character of this market when it declines. On down (corrective) days the market has failed to generate across-the-board weakness. In other words, the down days have been unimpressive, and that's impressive (often, what a market does on the decline tells you more than what it does on the upside).

THE CHART PICTURE: I haven't done this in a while, but I want to present some very long-term charts -- all in an effort to place the financial picture in perspective.

The first chart shows the **Dow** going back to the early 1970s. I've maintained that the entire rise since December 1974 (at Dow 577.60) is part of one huge primary bull market. I've felt that the bull market began a topping process in 1987 when the Dow (in August) recorded a high of 2722.42. Since then we have seen a crash (1987), a mini-crash (1989), a great amount of speculation, and most recently a sideways movement beginning in February of 1991.



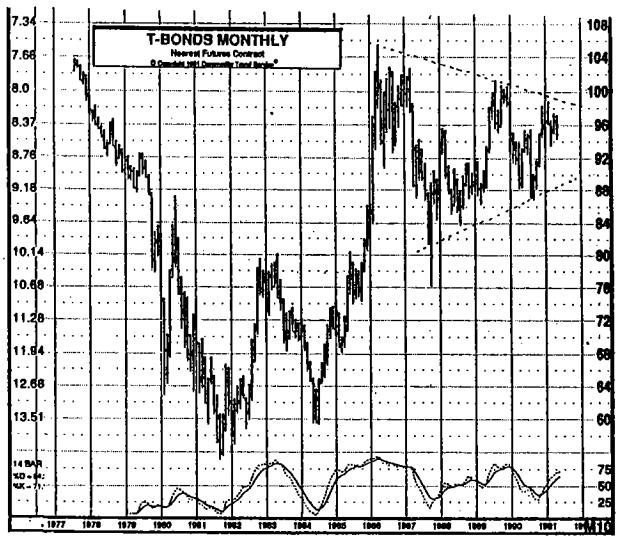
With the yield on the Dow now just above 3%, I continue to believe that we are witnessing the formation of a huge, really unprecedented market top. But why, you ask, is the top stretching out year after year? And why, after almost four years, is the Dow less than 10% above its 1987 high? My answer -- "Government manipulation," and I pointed this out years ago. The government and most prominently the Fed, now fights recession tooth and nail. They have to -- the political pressure to avoid or do away with recessions is intense. And no Fed can buck the threats and entreaties of the White House for long. Certainly no economic contraction has ever been jawboned, talked away, hyped, to the extent that this one has.

So where do we stand today? I believe the market is still in the process of forming a massive top. Meanwhile, the economy is being jawboned higher by a tidal wave of well-wishers, frightened businessmen, consensus economists and election-bound politicians.

The second chart shows **Treasury bonds** going back to 1976. With Fed Chairman Volcker stepping on the brakes and running the discount rate through the roof, the bonds collapsed during 1980-82. At the lows, long bond yields hit 15%. From there, bonds staged a massive recovery. The bonds reached a peak in early 1986 as yields dropped all the way back to the 7.5% range.

As you can see on the chart, bonds since '86 have formed a huge symmetrical triangle, a pattern of indecision. However, there are some amazing facts that every bond owner should be aware of.

The rate of growth in US and world debt is now almost dizzying. Consider this: US federal debt in 1929 was $16 billion. By 1980 it had grown to $1 trillion. By 1985 it had grown to $2 trillion. In



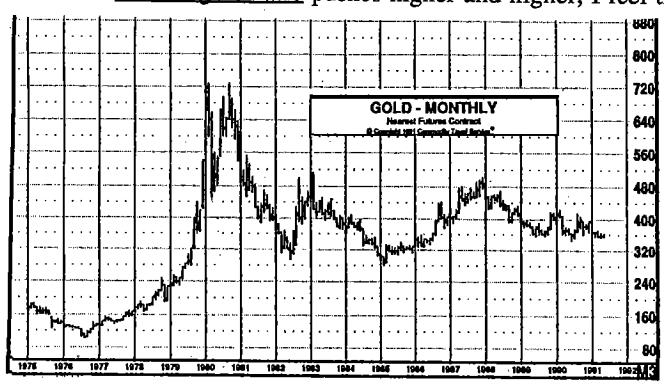
1989 it went over $3 trillion. By late-1992 the debt will have rocketed to $4 trillion. By 1998 the federal debt will be $10 trillion. Interest on the debt is now near 15% of total government expenditures. In Japan it is 18%, in Europe it averages 20%. But these nations have high savings. Incredibly, the global issuance of bonds is now running at $100 billion a month. The river of debt has turned into an ocean of debt.

How can the US and the world finance this never-ending ocean of new debt? That's probably the most critical question facing the world today. Of course, one way would be all-out, rampant inflation. But I don't think that is feasible any longer. In the absence of an inflationary "solution," the other solution would be to halt the issuance of new debt. But that would result in depression.

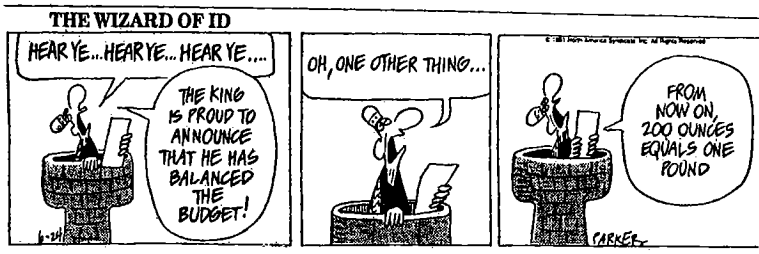
So I'll have to admit that I don't have the answer to the problem of $100 billion in new debt each and every month. But here's my thought: we'll watch this chart closely. If the T-bonds drop below the lower trendline at 88, we're looking at major trouble in the money markets. My guess is that the trouble would coincide with a bull market in gold.

Note: auctions of US government paper are ever-larger. Salomon Bros. believes the Treasury will have to accelerate its borrowing to nearly $200 billion over the balance of 1991 compared with $150 billion during the same period last year. Yeah, we're talking real money.

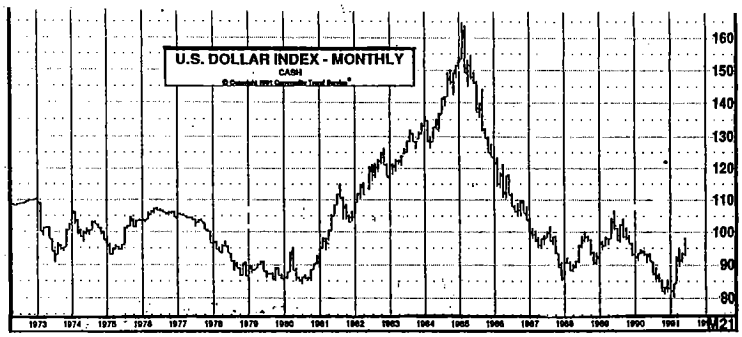
Gold has been a "dirty word" ever since its blow-off in 1980. In February 1985 gold sank to an extreme low of 295; it hasn't been back there since. Gold has formed a powerful base at 350. At that level it seems the central banks will step in and buy the metal. As the world debt-to-gold ratio pushes higher and higher, I feel the



pressure will build to send gold into a new bull market. For ultimately, a rising tide of debt, all of it expressed in paper, must cast doubt on the entire global financial system. Somewhere along the line, investors intent on preserving their purchasing power, will instinctively turn to gold. But let's keep it simple -- maybe this cartoon says it all.


THE WIZARD OF ID
HEAR YE...HEAR YE...HEAR YE....
THE KING IS PROUD TO ANNOUNCE THAT HE HAS BALANCED THE BUDGET!
OH, ONE OTHER THING...
FROM NOW ON, 200 OUNCES EQUALS ONE POUND
PARKER

Today it's a global economy, and as such one has to be interested in the item that one's wealth is denominated in. For Americans, it's the **dollar.** There's been a lot of talk this year about the "amazing strength" of the dollar. But this long-term chart shows that the dollar is still far below its 1986 high. So the question -- are we looking at a new bull market for the dollar or simply a correction in an ongoing bear market? It's too early to tell, but it would be very impressive if the dollar could better its 1989 peak -- which means the Dollar Index rallying over 110. My opinion: I don't think we're going to see the Dollar Index at 110. What could put the dollar over 100? (1) The US moving towards a balanced federal budget or (2) Sky-high, almost irresistible US interest rates.



NOTICE: This is a notice that I don't like to make, and one that I've been holding off on for a long time. I'm raising the price of a subscription to Dow Theory Letters from the current $225 a year and $130 for six months to $250 a year and $150 for six months (two years from $400 to $450). The last time I raised prices was back in January 1983. Since then I've been absorbing costs annually -- for printing, for mailing, for huge postage increases, for salaries and for medical. And I was willing to absorb cost increases, because I loathe inflation, and the last thing I wanted to do was to be part of the inflation game.

But now the last straw -- on top of everything else the state of California has hit all newspapers, magazines and new letters with an immediate new 8.25% sales tax. This abomination is just too much for me to absorb. So I'm going to have to raise subscription prices now. My promise -- I'll continue to work my head off, provide as much information as I can cram into six pages, and do the best job I can.

NOTES & QUOTES: Make no mistake about it, the Chemical-Manufacturers Hanover merger is basically a cost-cutting event. It will result in over six to 10 thousand employees being "let go," 95% of them in NYC. Furthermore, this is the wave of the future in banking -- mergers and "cost-cutting." Banks will either cut costs or go under.

* *

California has just imposed (for the first time) a sales tax on all newspapers, magazines and news letters. On top of that this deficit-ridden state has just raised taxes in many other areas, including a tax boost for the "rich" (clip from the July 12 *San Diego Tribune*):

SAN DIEGO TRIBUNE

Friday Afternoon, July 12, 1991

FINAL EDITION

DOW UP 21.02

State to taxpayers:

TAKE A HIKE

California is a pretty typical tax state, but just worse than most. The fact is that the American public has been raped by its politicians. In their frenzied desire to garner votes by offering more than the cities and states can afford, the politicians have piled on the public tax upon tax, red tape upon red tape, paper work upon paper work. Twenty years ago I used to talk up San Diego as a virtual paradise, a heaven on earth. And over the years I've had dozens of subscribers tell me that they moved out here based on my glowing reports.

Then it got kind of crowded and smoggy here in the Golden State -- and I stopped urging people to move out to heaven. Now I'm telling you this -- if you have an urge to move out to California (and particularly if you have a business), do yourself a favor -- lie down and wait for the urge to pass. The cities here have become crowded and smoggy, the freeways are bottled up, there's an ongoing drought, housing is over-priced, crime is rampant, taxes are high and going higher, and I would term the business atmosphere here as definitely hostile.

* *

In a letter (July 16) to the *WSJ* , economist Arthur Laffer predicts the following for California: (1) By the end of 1994 California real estate prices will be down 20% from its former highs. (2) California's unemployment rate (relative to the rest of the nation) will rise 2.5% by the end of 1994. (3) California's personal income per capita (relative to the rest of the nation) will drop 6% by the end of 1994. (4) California's bond ratings will be lowered. (5) California's budget will remain in crisis. Russell opinion: I couldn't agree more. This state has gone off its rocker. Business and the wealthy are moving out, while the needy move in. As Laffer puts it, "Raising taxes on the last two guys working doesn't make your state healthy."

If you really want to move, my suggestion would be to go somewhere on the east or west coast of Florida, or maybe Austin or San Antonio, Texas. Or try Nevada -- maybe around Incline Village at Lake Tahoe or even Reno or Sparks (Las Vegas is the fastest growing town in the nation). Then there's the Northwest -- Oregon or Washington. The "coming area" from what I see and hear is the great American Northwest. But it ain't California.

* *

Hot new industry -- information and books recorded on compact CDs. The discs, which are an offshoot of audio compact disks, can be played on CD-ROM players connected to personal computers. With recent innovations, these discs can show cartoons, photographs and even slow-motion video on computer screens. Some of the new best sellers on disks are the entire Grolier Encyclopedia for $345, the Microsoft bookshelf -- 10 reference works including the American Heritage Dictionary, Rogets Thesaurus, Bartlett's Quotations, and the dictionary of ZIP codes all for $199. For $149 you can get National Geographics disk containing 45 video clips from TV documentaries and the sounds of different animals. William Gates, CEO of Microsoft, has been buying up rights of classic books, and he states that the CD business will be a billion dollar business by the end of the decade.

* *

For this we fought a war? (from the July 15 *Christian Science Monitor*): "Bush administration officials concede there is little they can do to force their Middle Eastern nemesis from power. Overthrowing Saddam 'is a hope, not a policy,' says one US official. But if the US succeeds in eliminating the nuclear capabilities that make Iraq a continuing threat (which is now the administration's highest priority) Americans officials say they can learn to live with Saddam."

* *

The collapsing Soviets need money. But a big question is this -- with the Soviets spending over $200 billion a year on their gigantic military, why the devil should anyone lend them money? If the Soviets need hard cash, let them cut their military to the bone and start producing items that the world can use. But the whole Soviet situation is such a bungled mess, such a chaotic mixture of conflicting power struggles, that many believe that any money given to the Soviets is just money down the drain. Consider this: Gorbachev is still leader of the (obstructive and useless) Communist Party, and he has no intention of giving up on the party. The massive KGB is still the most powerful (and useless)

force in the Soviets, and no one has even hinted at disbanding it. Furthermore, few people in Russia have any idea of how to run a business. For decades, "profit" has been a dirty word in the Soviets. But can you run a capitalist society without profits?

* *

Almost every nation in the world is now running deficits, with the exception of Australia and Britain, two countries that are actually paring down debt. On July 9 Britain's Defense Secretary Tom King announced that Britain would cut its armed forces by 20% (i.e., by 42,000 men), leaving Britain with its smallest army in modern history.

* *

The National League of Cities just released a report stating that 61% of American cities face deficits in 1991. What's the problem? Basically, ineptitude, stupidity and greed on the part of city politicians. Few pols had any plan in case of economic reversal, and the recession came as a shocker to the city fathers. So the policy throughout the nation has been three-fold: (1) fire city employees, (2) raise taxes, particularly on the rich, and (3) close or cut back at city institutions such as libraries, zoos, etc.

* *

Last week the White House made the stunning prediction that the 1992 deficit will be up $67.4 billion (due to the Gulf War, the S&L crisis and the recession). This raised the total coming budget deficit to a record $348.3 billion. Russell comment: try well over $400 billion.

* *

According to a report by the World Bank, the world spends over $1 trillion a year on military troops and hardware. What's that old saying, "Whom the gods would destroy, they first make mad." That's a pretty good description of a civilization where $1 trillion a year is spent on the military and where 40,000 babies die from disease or starvation every day.

* *

Oh yeah, speaking of insanity how about this -- the US Post Office gave out $20 million in bonuses to brass over the last three years, this during a period when the PO lost $1.4 billion. Coming up (it's becoming an annual event), a new boost to 30 cents on first class mail. When, oh when, are they going to privatize the PO?

* *

Richard Rahn (Chief Economist for the Chamber of Commerce) estimates that as much as 80% of the rise in the Consumer Price Index is the result of the Fed creating money to cover government-mandated cost increases. In other words, all the added costs that our government is sticking us with account for the great bulk of rising inflation. I believe it.

* *

The Council for Competitiveness has just announced that the US standard of living declined in 1990 for the first time since 1982. The Council also reported that for the third year in a row the US invested less in new factories and equipment as a percentage of its total GNP than any of its major foreign competitors. Said the report, "While other industrial nations are laying the foundation for strong economic growth, the US continued to be a 'slumbering giant.' The American dream may not be what most Americans expect if current trends continue."

* *

Of the top 20 (in size) banks in the world, the US now has none. Eleven of the top 20 are Japanese, four are French, one is German, one is Dutch, one is British. The 21st of the world's largest banks is the US' Citicorp. But Citicorp is not doing well -- last week it hit its lowest price since January and some analysts predict zero earnings for the year and another dividend cut coming up.

* *

Contrary opinion: Roland Berger of Roland Berger and Partners is the fastest growing and perhaps most prestigious firm in Germany. The management consulting firm has 20 offices in 12 countries worldwide. Berger's "stage" now is all of eastern Europe including the Soviet Union and East Germany. Currently, Berger is restructuring 30 East German businesses plus *Treuhandenstalt,* the public agency which holds nearly all of the former assets of East Germany. Berger is backed by the powerful Deutsche Bank, which is a "partner" and holds 75% of the equity stock in the consultancy. The consensus is that East Germany is a disaster. Listen to Berger: "I'm a thoughtful optimist," he says. Berger believes that by 1996 at the latest East German manufacturers and service industries will be operating at near-Western levels. By the year 2000 Berger predicts that East Germany will "the Japan of the post-1992 European market." And wouldn't that be a shocker.

* *

I spoke last week in San Jose before 1,150 people at a seminar sponsored by the Benham group of mutual funds (they manage $7 billion). Before introducing me, Jim Benham asked the audience for a show of hands from those who believe, based on their own experience, that inflation in the US is what the government tells us it is. Out of the 1,150 people in the audience, not a hand went up.

* *

What's happening in the Soviets is really quite fantastic. According to the July 14 *NY Times* "there is a bewildering sense of a wounded monolith surviving through sheer inertia, beyond the laws of economics, politics or common sense . . . the economy should be near collapse, but in a system manipulated so long by a secretive center, nobody really knows what that means. There is no stock market to collapse, no savings-and-loan institutions to go under, no middle class to panic. The anxiety reveals itself in different ways. In an opinion poll, 40% of students in Moscow and Leningrad said they were prepared to leave the country if possible."

* *

I predicted long ago that the advent of computers and TV would mean the downfall of communism. When computers swept the Free World, the Soviet leaders had to decide whether to continue to forbid the Soviet people access to computers. But if the Soviets continued on that course, it was clear that the Free World would move into the electronic/computer communication age and leave the Soviets back in the "dark age" before computers. The Soviet leaders obviously felt that they had to enter the age of computers. Access to computers and world information allowed the Soviet people to see what the West had and to compare that with their own pathetic life style. When the Soviet people saw the West and compared what they saw to the "fruits of Communism," it was the beginning of the end. The Soviet system and its economy was doomed.

* *

What kind of diseases does America suffer from? The dollar amount of the drugs we use tells something about what ails us. #1 drug -- Zantac (Glaxo) for ulcers with sales of $1.305 billion a year (evidently, there are one heck of a lot of ulcers in the US). #2 -- Cardizem (Marian Dow) for hypertension and angina at $727 million. #3 -- Procardia (Pfizer) for the same as Cardizem at $727 million. #4 -- Prozac (Eli Lilly) for depression at $660 million. #5 -- Mevacor (Merck) for high cholesterol at $600 million.

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If the trend continues, American anti-Semites may face the ultimate frustration -- they'll be no more Jews to hate. According to a major study by the Council of Jewish Federations, 52% of the Jews (both men and women) who have married since 1985 have picked gentiles for spouses. More significant, nearly three of every four children of those who have intermarried are being raised either as Christians or with no religion at all. The percentage of Jews in the US population has now dropped from 5% 40 years ago to a current minuscule 1.8%. Russell experience: I have four daughters. Two of them (both are three-quarters Jewish) are married, and both have married Catholics. Their hubbies are nice guys, so it's fine with me.

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I read in the July 16 paper that the 19-year-old son of super-financier Henry Kravis was killed in an auto accident. As a parent, I think this is the single worst thing that can happen to you. I'll bet that Kravis would give all his money if he could reverse that hideous event. I know I would.

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I think one of the best things about the current global situation is that the possibility of a big war seems remote. I've seen mothers' sons die in combat, and believe me, it's a tragic and stomach-turning sight. Forget what you see in the movies, nobody in war dies gracefully. They die pitifully, their bodies brutalized by piercing metal. I would often think when staring at a dead soldier, "I wonder what he looked like as a baby cradled in his mother's

arms. In her wildest nightmare, could she ever have imagined her baby boy would end up like this?"

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Britain announced that shortly tobacco companies will have to start printing tough new warnings on cigarette packs sold in Britain. Some of the warnings: "Smoking Kills." "Smoking Causes Cancer." "Smoking Causes Fatal Diseases." I smoked for many years, and I regret it. Smoking is a pernicious, extremely addictive habit, and it undoubtedly causes tens of thousands of deaths every year. To my mind, tobacco is a curse that has caused untold misery. They say that if you quit smoking, and if nothing smoking-related happens to you in the following 10 years, your lungs and body are almost as good as if you never smoked. I sure hope so. I stopped smoking in 1970.

* *

The German view (from Dr. Kurt Richebacher, subs. at Mulvery Press, 7889 Sixteen Rd., Calstor Centre, Ontario, Canada LOR 1EO): "Every sustained economic recovery needs lots of monetary and financial fuel. That's not forthcoming this time. Most American banks have neither the profits nor the capital to expand. It's a pivotal point. The real estate crisis that destroyed the S&Ls has caught up with the commercial banks. Between 1980 and 1991 the US banks increased their real estate loans from $262 billion to $854 billion . . . Meanwhile, more and more problems are bubbling up in insurance companies and pension funds. With all these crumbling financial edifices, we ask ourselves, who will finance the US recovery? The answer is nobody."

WHO WILL INHERIT THE EARTH? This is a drawing that appeared in the *NY Times* last December 18. The drawing has fascinated me, and I think it provides an incredible amount of information. What we see here is a portrait of different organisms based on their diversity or on the number of species in each category. The bigger each organism depicted in the drawing, the greater the number of species in that family.

For instance, at the upper right we see the big insect representing 751,000 different species. At lower left are the non-insect Arthropoda (mites, spiders, crustaceans) with 123,000 species. Upper left is plants with 248,000 species. The mushrooms in the middle are fungi with 46,900 species. The mullusks have 50,000 species. Fish 19,000 species. Protozoa 30,800 species. Algae 28,900 species. The elephant, representing mammals, a mere 4,000 species. Birds have only 3,000 species.

It stands to reason that the more species in a group, the better or more efficient that group is in surviving. On this basis, it is clear that the insects and the non-insect Arthropoda along with the plants will inherit the earth. For instance, take the countless thousands of mite species. Do you know that some mites live on your living room rug -- live off the scrapings of your dead skin that fall on your rug? Do you know that some mites live on your eye lashes? Do you know that some mites live in the throats of honey bees? Did you know that some cockroaches have survived literally unchanged for tens of millions of years? Do you know that roaches have even survived high dosages of nuclear radiation? Do you know that there are more than 70,000 species of beetles alone. This chart depicts only the number of known insects, but scientists say that there may be as many as ten million species of insects alone!

Talk about survival ability. The mites and insects and plants will outlive us. They'll be here and thriving when the next to last human being on earth cuts his neighbor down with a laser gun.

I showed this chart to daughter, Daria. I said, "It looks like the insects and mites will inherit the earth." Her answer was, "They should. We've just about ruined it for everybody and everything else." Mmm, she could be right.

GOLD: The gold stocks have been creeping steadily higher. I keep a ratio of gold (the metal) divided by the gold/silver average. At this point the stocks have moved substantially ahead of the metal. I figure it would take a price of 400-410 on the metal to put the metal in sync with the stocks. Therefore, I don't expect any further upside action in the stocks unless gold itself starts pushing towards 375-380 (basis the London fix).

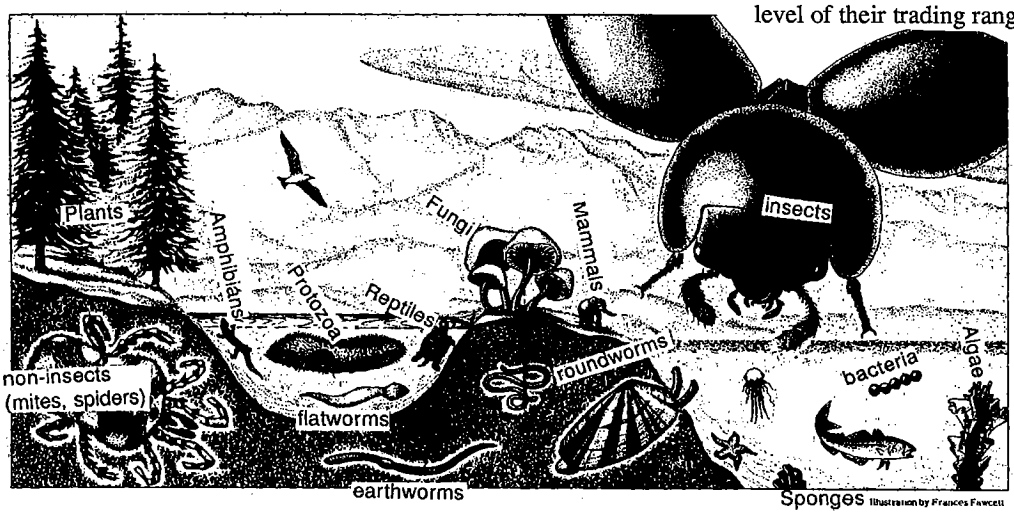
The whole gold picture seems to have taken on a firmer tone, however, and the sudden swoons that were so much a feature of 1989 and '90 now seem to be a thing of the past.

I continue to feel that gold coins are a bargain as long as the London fix is below 375. And I continue to suggest that subscribers who don't own any gold items "get their feet wet" by taking an initial position in one of the no-load gold mutual funds. If you were to buy just one gold stock, I would recommend American Barrick.

Shocker: On June 17 during the London economic summit the Soviets released data on their gold reserves (in dealing with the IMF this is a requirement). No newspaper carried this news, but according to the Knight-Ridder service, the Soviets stated that they had only 374.5 metric tons of gold. This is FAR LESS than either private or CIA estimates, which had put Soviet gold reserves at 3,000 to 3,500 metric tons -- nine times the newly admitted figures. Assuming $370 an ounce, total Soviet gold reserves are now a paltry $4.4 billion, equal to four days of US deficits! (Thanks to my old friend, Neil Nobel, of *Rauscher Pierce Refsnes Inc.*, Phoenix, for bringing the above to my attention.)

Conclusion: I kept saying that the Soviets should back the ruble with gold. Why hell, if these figures are true they don't have enough gold to back their currency. Moreover, with production of everything else sliding in the Soviets, it is almost certain that their gold production is sliding as well. The fact is that for the first time in years, world demand for gold is now outdistancing supply. In other words, the supply/demand equation for gold has now turned bullish.

LATE NOTES: The Averages have been flirting with the upper level of their trading ranges, which in almost all cases corresponds to record highs. A lot of low-volume nervousness and uncertainty in this area. I strongly suggest that all subscribers spend a minute a week to chart five items listed at the top of page 1. They are the (weekly) Dow together with the 30-week and 200 day moving averages of the Dow, the PTI and the Summation Index. Tracking these five items over time will give you an excellent "feel" for what this market is doing . . . I just put money in Neuberger Berman's new Ultra Short Bond Fund -- yield around 8% on short maturities -- (800)-877-9700 . . . Bonds and the dollar look toppy here. With money growth low, the pressure will be on the Fed to drop interest rates again -- which is bearish for the dollar .



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